

Message Text

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JOINT EMBASSY-USAID MESSAGE

SAN JOSE FOR AGATT

E.O. 11652:N/A

TAGS: EAGR, PN

SUBJECT: THE IMPLICATIONS OF ITS COST TO THE CONSUMER

1. INTRODUCTION. THE MISSION IS PREPARING IN-DEPTH ANALYSES OF THREE OF PANAMA'S MAJOR AGRICULTURAL CROPS- RICE, SUGAR AND BANANAS. THIS CABLE PRESENTS A SUMMATION OF THE ISSUES PERTAINING TO RICE (FOR MORE DETAIL, SEE AIRGRAM A-141 OF 10/15/76).

2. THE CURRENT RICE SITUATION.

A. SUMMARY. THE FIRST AND BY FAR THE MOST IMPORTANT RICE CROP OF THE 1976-77 AGRICULTURAL SEASON HAS BEEN SEVERELY DAMAGED BY DROUGHT. THE DROUGHT HAS ALSO CAUSED A ONE-MONTH DELAY IN HARVEST, EXTENDING IT INTO OCTOBER. PRELIMINARY ESTIMATES INDICATE THAT PRODUCTION FROM THE HARVEST ENDING IN OCTOBER WILL BE ABOUT 2.6 MILLION HUNDREDWEIGHT, DOWN 35-40 PERCENT FROM EARLY GOVERNMENT ESTIMATES. LAST YEAR'S LARGE CARRYOVER IS MORE THAN OFFSET BY THE DECLINE IN PRODUCTION, RESULTING IN A TOTAL SUPPLY OF ABOUT 3.1 MILLION HUNDREDWEIGHT AS OF THE END OF OCTOBER. THESE STOCKS WILL UNCLASSIFIED

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BE FURTHER AUGMENTED IN FEBRUARY-MARCH BY ABOUT 550,000 HUNDREDWEIGHT OF PRODUCTION FROM THE NEW PLANTING NOW UNDER WAY. THIS SHOULD RESULT IN A TOTAL SUPPLY OF 3.64 MILLION HUNDREDWEIGHT FOR 1976-77,

A DECLINE OF ABOUT 17 PERCENT FROM THE PREVIOUS YEAR.

THE UNMILLED RICE SUPPORT PRICE AT THE FARM WAS RAISED IN SEPTEMBER FROM \$8.90 TO \$10.50 PER HUNDREDWEIGHT, AN 18 PERCENT INCREASE. THE CONSUMER PRICE WAS RAISED ON THE SAME DATE FROM 20 CENTS TO 23 CENTS PER POUND, A 15 PERCENT INCREASE. THESE UNEXPECTED INCREASES IN PRICES, COUPLED WITH OTHER FOOD PRICE INCREASES, EXACERBATED THE CONSUMERS SUBSTANTIAL CONCERN ABOUT THE RISING COST OF LIVING, A CONCERN MNIFESTED DURING A SERIOUS OF STUDENT DEMONSTRATIONS AGAINST THE GOVERNMENT IN SEPTEMBER.

ADVERSE GROWING CONDITIONS FOR THE CROP DUE TO BE HARVESTED IN FEBRUARY WOULD EXACERBATE THE TIGHT SUPPLY SITUATION.

B. DEMAND. THE RECENT 15 PERCENT INCREASE IN PRICE AT THE RETAIL LEVEL SHOULD DAMPEN DEMAND BY ABOUT 6 PERCENT. DEMAND DECREASE DUE TO PRICE INCREASE WILL BE SOMEWHAT OFFSET BY POPULATION INCREASE. OVERALL DEMAND SHOULD BE 2-4 PERCENT BELOW AVERAGE AT A PER CAPITA CONSUMPTION LEVEL OF ABOUT 62 KILOGRAMS. SHOULD THIS BE THE CASE, PANAMA SHOULD EXPECT A SHORTFALL OF 250 THOUSAND CWT., ROUGHTRICE BASIS, OR 152 THOUSAND CWT. MILLED BASIS. THIS IS EQUIVALENT TO ABOUT 6900 METRIC TONS OF MILLED RICE (ABOUT \$1.7 MILLION AT CURRENT PRICES).

BASICALLY, THERE ARE TWO WAYS THE GOP CAN APPROACH THE SHORTAGE SITUATION: (1) THE GOVERNMENT CAN TURN TO IMPORTS TO MEET DEMAND, OR (2) CONSUMERS MAY BE REQUIRED TO TIGHTEN THEIR BELTS AND SEEK AVAILABLE SUBSTITUTES. THE LATTER ALTERNATIVE SEEMS TO BE THE ONE THAT WILL PROBABLY BE CHOSEN DUE TO (1) SEVERE SHORTAGES OF FOREIGN EXCHANGE, AND (2) HISTORIC PRECEDENTS (NOTE PREVIOUS PER CAPITA CONSUMPTION LEVELS FOR UNCLASSIFIED

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SHORT-SUPPLY YEARS).

C. THE STABILIZATION PROGRAM. THE PRICE STABILIZATION PROGRAM FOR RICE HAS HAD ITS UPS AND DOWNS DURING THE LAST 12 MONTHS. THE ANNOUNCED (1975) PRE-PLANTING PRODUCER PRICE WAS LOWERED IN LATE 1975 FROM \$10.00 TO \$8.90 PER CWT. PRIMARILY BECAUSE THE GOVERNMENT MARKETING AGENCY HAD NEITHER THE FUNDS NOR THE DRYING AND STORAGE CAPACITY TO BUY ALL THE PRODUCTION THAT WAS BEING OFFERED FOR SALE. THE \$8.90 PRICE FOR ALL PRACTICAL PURPOSES HALTED THE PURCHASE OF RICE FROM THE PRODUCER. THE GOVERNMENT MARKETING AGENCY DID NOT BUY ANY RICE AT THE \$8.90 LEVEL.

THE CONTINUING DROUGHT OF MID-1976 RAISED CONCERN ABOUT THE OUTCOME OF THE MAJOR, FIRST-PLANTING CROP. CONCERN MOUNTED UNTIL IT WAS SUFFICIENT TO CAUSE THE GOVERNMENT TO CHANGE THE PRICE LEVEL ONCE AGAIN. IN SEPTEMBER 1976 THE PRICE WAS RAISED FROM \$8.90 TO \$10.50 PER CWT. JUSTIFICATION FOR THE INCREASE WAS STATED TO BE THE NEED FOR INDEMNIFYING THE PRODUCER BECAUSE OF (1) HIGHER PRODUCTION COSTS, AND (2) DROUGHT DAMAGE.

3. ISSUES. THREE REAL AND VERY BASIC ISSUES CONFRONT PANAMA REGARDING THE NATIONAL RICE POLICY AND THE GOVERNMENT STABILIZATION PROGRAM:

ISSUES NO. 1: SHOULD PANAMA AT THIS TIME RECONSIDER ITS CURRENT POLICY OF PROMOTING DOMESTIC OUTPUT OF RICE AND CERTAIN OTHER FOODSTUFFS AT PRICES ABOVE WORLD LEVELS FOR "STRATEGIC" REASONS? THE PRESENT COST OF SUBSIDIZING DOMESTIC PRODUCTION OF RICE IS

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